



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT EXAMINATION OF THE  
MARTIN COUNTY SHERIFF**

**Calendar Year 1998**

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Edward B. Hatchett, Jr.  
Auditor of Public Accounts

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
John P. McCarty, Secretary  
Finance and Administration Cabinet  
Mike Haydon, Secretary, Revenue Cabinet  
Honorable Lon E. Lafferty, Martin County Judge/Executive  
Honorable Darriel Young, Martin County Sheriff  
Members of the Martin County Fiscal Court

The enclosed report prepared by Stephens & Lawson, P.S.C., Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the Sheriff of Martin County, Kentucky, as of December 31, 1998.

We engaged Stephens & Lawson, P.S.C., to perform the financial audit of this statement. We worked closely with the firm during our report review process; Stephens & Lawson, P.S.C., evaluated the Martin County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT EXAMINATION OF THE  
MARTIN COUNTY SHERIFF**

Calendar Year 1998



## **EXECUTIVE SUMMARY**

### **MARTIN COUNTY DARRIEL YOUNG, SHERIFF CALENDAR YEAR 1998 FEE AUDIT**

The Martin County Sheriff's 1998 fee audit was contracted to Stephens & Lawson, PSC through a request for proposal (RFP). The audit revealed no reportable internal control issues and two compliance issues that are reported on the comment and recommendation section. The Sheriff received operating revenue from various sources, including a state advance of \$72,409 and a loan from the 1997 fee account in the amount of \$2,391 to fund the operations of his office when cash flows were low. Both the state advance and the loan from the 1997 fee account were repaid when the Sheriff received his tax commissions. The Sheriff's office generated excess fees of \$ 16,646, which represents net income of the office after paying all operating expenses for the year. Excess fees are payable to the County Fiscal Court and as of the completion of fieldwork, the Sheriff had not remitted the excess fees.





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### Independent Auditors' Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the Sheriff of Martin County, Kentucky, for the year ended December 31, 1998. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As describe in Note 1, the Sheriff is required to prepare the financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Sheriff for the year ended December 31, 1998, in conformity with the basis of accounting described above.

Based on the results of our audit, we have presented a comments and recommendations, included herein, which discusses the following areas of noncompliance:

- The Sheriff Should Present An Annual Financial Statement To The Fiscal Court, Pay Excess Fees To The Fiscal Court For Calendar Year 1998, And Publish The Annual Financial Statement.
- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits.

To the People of Kentucky  
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In accordance with Government Auditing Standards, we have also issued a report dated September 6, 2000, on our consideration of the Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

Stephens & Lawson, P.S.C.

Stephens & Lawson, P.S.C.

Audit fieldwork completed -  
September 6, 2000

MARTIN COUNTY  
DARRIEL YOUNG, SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 1998

Receipts

State Fees For Services:

Finance and Administration Cabinet	\$ 10,680	
Cabinet For Human Resources	<u>1,459</u>	\$ 12,139

Circuit Court Clerk -

Fines and Fees Collected	\$ 1,865	
Sheriff Security Services	<u>2,854</u>	4,719

County Clerk - Delinquent Taxes

3,220

Commission on Taxes Collected

150,358

Fees Collected For Services -

Auto Inspections	\$ 6,550	
Accident and Police Reports	221	
Carrying Concealed Deadly Weapons/Permits	2,160	
Serving Papers	<u>5,360</u>	14,291

Other -

Miscellaneous	\$ 770	
Refunds	<u>4,062</u>	4,832

Interest Earned

3,633

Borrowed Money:

State Advancement	\$ 72,409	
Loan From 1997 Fee Account	2,391	
Loan Repayment from 1999 Fee Account	<u>2,626</u>	<u>77,426</u>

Total Receipts (Carried Forward)

\$ 270,618

The accompanying notes are an integral part of the financial statement.

MARTIN COUNTY  
DARRIEL YOUNG, SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES  
Calendar Year 1998  
(CONTINUED)

Total Receipts (Brought Forward)		\$ 270,618
<u>Disbursements</u>		
Operating Disbursements -		
Payments to Fiscal Court		
Salary Reimbursements		\$ 68,073
Contracted Services -		
Contract Labor	\$ 13,765	
Vehicle Maintenance and Repairs	<u>15,737</u>	29,502
Supplies and Materials -		
Office Materials and Supplies	\$ 12,265	
Uniforms	<u>6,857</u>	19,122
Auto Expense -		
Gasoline		9,127
Other Charges -		
Bond	\$ 203	
Bond	203	
Dues	844	
Miscellaneous	268	
Postage	<u>681</u>	2,199
Debt Service -		
State Advancement	\$ 72,409	
Repay Loan to 1997 Fee Account	2,391	
Loan to 1999 Fee Account	<u>2,626</u>	<u>77,426</u>
Total Disbursements		<u>\$ 205,449</u>
Net Receipts		\$ 65,169
Less: Statutory Maximum		<u>48,726</u>
Balance Due at Completion of Audit		<u><u>\$ 16,443</u></u>

The accompanying notes are an integral part of the financial statement.

MARTIN COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting pursuant to Kentucky Revised Statute (KRS) 68.210 as recommended by the State Local Finance Officer. Revenue and related assets are generally recognized when received rather than when earned. Certain expenses are recognized when paid rather than when a liability is incurred, including capital asset purchases. Certain other expenses are recognized when a revenue and the related asset can be associated with a corresponding liability due another governmental entity.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

NOTE 2 - EMPLOYEE RETIREMENT SYSTEM

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.22 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

MARTIN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 1998  
(CONTINUED)

NOTE 2 - EMPLOYEE RETIREMENT SYSTEM (Continued)

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

NOTE 3 - DEPOSITS

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of December 31, 1998, the bank balances were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond. However, as of February 17, 1998, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$486,015 of public funds uninsured and unsecured. In addition, the Sheriff did not have a signed written agreement with the depository institution securing the Sheriff's interest in the collateral.

NOTE 4 - GRANT

The Sheriff received a Local Law Enforcement Equipment Grant from the U.S. Department of Justice in the amount of \$11,932 which required a \$1,326 local match. During 1998, interest of \$46 was received and grant expenditures of \$3,268 were made. No money remained in the grant account at December 31, 1998.

NOTE 5 - COMMUNITY ORIENTED POLICING SERVICES GRANT

The Sheriff did not receive prior written approval from the fiscal court to obtain the Community Oriented Policing Services (COPS) Grant. The Sheriff received funds from a COPS grant during calendar year 1995, 1996, and 1997. The Department of Justice has noted the Sheriff's department applied for the grant in violation of Grant Assurance #1, which states that the Sheriff's department is legally and officially authorized by the appropriate governing body to apply for the grant. The COPS Grant has been discontinued and the U.S. Department of Justice is asking that all grant receipts be returned. The Sheriff contends that the fiscal court should be responsible for repayment. For the 1995, 1996, and 1997 calendar years, grant receipts totaled \$89,049. However, the Department of Justice has billed the Sheriff's office for partial repayment. Should the Sheriff's office be liable for repayment of the grant, partial repayment may be made from excess fees paid to the fiscal court for each year of grant receipts. This situation may affect excess fees reported for 1995, 1996, and 1997. However, repayment is limited to the extent of actual grant receipts for each year. If excess fees for any year does not cover repayment of the grant, the Sheriff personally or the fiscal court may be liable for the balance. At this time, the



MARTIN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 1998  
(CONTINUED)

NOTE 5 – COMMUNITY ORIENTED POLICING SERVICES GRANT (Continued)

outcome of this situation is unknown. The fiscal court has retroactively approved the Sheriff's application for this grant. Grant receipts and disbursements for 1995, 1996, and 1997 were \$89,049 and excess fees for this period were \$53,137, the Sheriff would be personally liable for the difference of \$35,912 unless the fiscal court chose to pay.

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## COMMENTS AND RECOMMENDATIONS



MARTIN COUNTY  
DARRIEL YOUNG, SHERIFF  
COMMENTS AND RECOMMENDATIONS

Calendar Year 1998

Current Year Comments and Recommendations:

1. The Sheriff Should Present An Annual Financial Statement To The Fiscal Court, Pay Excess Fees To The Fiscal Court For Calendar Year 1998, And Publish The Annual Financial Statement
- 

The Sheriff did not present an annual financial statement to the fiscal court, he owes excess fees of \$16,646 for calendar year 1998, and he did not publish an annual financial statement. KRS 134.310 requires a statement of receipts and disbursements for all funds of the Sheriff's office be submitted to the fiscal court at the time the Sheriff files and makes his final tax settlement. The Sheriff is also required to settle excess fees with the fiscal court at this time. KRS 424.220(6) requires the financial statement to be published within sixty (60) days after the close of the calendar year. We recommend the Sheriff pay excess fees to the fiscal court for calendar year 1998. We also recommend that, in the future, the Sheriff present an annual financial statement to the fiscal court and publish the statement in a timely manner.

*Sheriff's Response:*

*The Sheriff concurs with the auditor's recommendation.*

2. The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- 

On February 17, 1998, \$486,015 of the Sheriff's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation. The Sheriff should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. 1823(e), the agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*Sheriff's Response:*

*The Sheriff concurs with the auditor's recommendation.*

Prior Year Comments and Recommendations:

1. The Sheriff did not present to the fiscal court nor publish an annual financial statement.

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REPORT ON COMPLIANCE AND ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING BASED ON AN  
AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





Honorable Lon E. Lafferty MD, County Judge/Executive  
Honorable Darriel Young, Martin County Sheriff  
Members of the Martin County Fiscal Court

Report on Compliance and on Internal Control  
Over Financial Reporting Based on an Audit of the Financial  
Statement Performed in Accordance With Government Auditing Standards

We have audited the Martin County Sheriff as of December 31, 1998, and issued our report thereon dated September 6, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Martin County Sheriff's financial statement as of December 31, 1998, is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Martin County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party. However, this report, upon release, is a matter of public record and its distribution is not limited.

Respectfully Submitted,

Stephens & Lawson, P.S.C.

Stephens & Lawson, P.S.C.

Audit fieldwork completed -  
September 6, 2000